

Selection Process and Indicators for Fiscal Year 2006

The Millennium Challenge Act of 2003 (“Act”) authorizes the provision of Millennium Challenge Account (MCA) assistance to countries that enter into Compacts with the United States to support policies and programs that advance the progress of achieving lasting economic growth and poverty reduction. The Act requires the Millennium Challenge Corporation (MCC) to take a number of steps in determining, and to the maximum extent possible based on the objective and quantifiable measures, the countries that based on their demonstrated commitment to just and democratic governance, investing in their people, and economic freedom, are eligible to receive MCA assistance for Fiscal Year 2006.

Candidate Countries

MCC identifies “candidate countries” for MCA assistance based on the World Bank’s annual report on country’s gross national income per capita. Based on this information, in Fiscal Year 2006, MCC’s Board approved two categories of candidate countries- “low income” countries and “lower middle income” countries. “Low income” candidate countries refer to those countries that have a per capita income equal to or less than \$1,575 gross national income. “Lower middle income” candidate countries are those that have a per capita income between \$1,575 and \$3,255.

Indicators

From the pool of candidate countries, MCC assesses the degree to which the political, social and economic policies in a country serve to promote broad-based sustainable economic growth. By applying these measurements MCC is identifying countries that have the best policy environments for MCA funding to be effective in reducing poverty and fueling economic growth. Countries are assessed for eligibility in comparison with other countries in their income category (“low income” or “lower middle income”) based on the indicators below.

MCC measures policies in three areas- Ruling Justly, Investing in People, and Promoting Economic Freedom- using 16 policy indicators. Specific definitions of the indicators and their sources are set out in [Annex A](#).

The sixteen indicators used in Fiscal Year 2006 are:

| Ruling Justly | Investing in People | Promoting Economic Freedom |
|--------------------------|-------------------------------|-----------------------------------|
| Civil Liberties | Public Expenditure on Health | Cost of Starting a Business |
| Political Rights | Immunization | Inflation |
| Voice and Accountability | Public Expenditure on Primary | Fiscal Policy |
| Government Effectiveness | Education | Days to Start a Business |
| Rule of Law | Girls' Primary Education | Trade Policy |
| Control of Corruption | Completion Rate | Regulatory Quality Rating |

To the maximum extent possible, the Board's determination of eligible countries is based on objective and quantifiable indicators of a country's demonstrated commitment to these principles. In making its determination of eligibility with respect to a particular candidate country, the Board considers whether such country performs above the median in relation to its peers on at least half of the indicators in each of the three policy categories and above the median on the corruption indicator. One exception to this methodology is that the median is not used for the inflation indicator. Instead, to pass the indicator, a country's inflation rate needs to be under a fixed ceiling of 15%.

In addition, the Board may exercise discretion in evaluating and translating the indicators into a final list of eligible countries. In this respect, the Board may also consider whether any adjustments should be made for data gaps, lags, trends, or other weaknesses in particular indicators. Likewise, the Board may deem a country ineligible if it performs substantially below average on any indicator and has not taken appropriate measures to address this shortcoming. Where appropriate, the Board may take into account other data and quantitative information as well as qualitative information to determine whether a country performed satisfactorily in relation to its peers in a given category, such as evidence of a country's commitment to fighting corruption and promoting democratic governance, its economic policies to promote sustainable natural resources management and treatment of people with disabilities. The Board also assesses the opportunity to reduce poverty, promote economic growth and have a transformational impact in a country in light of the overall context of information available to it, as well as the availability of appropriated funds.

Annex A: Indicator Definitions

Ruling Justly:

1. **Civil Liberties:** A panel of independent experts rates countries on: freedom of expression, association and organizational rights, rule of law and human rights, and personal autonomy and economic rights. Source: Freedom House.
2. **Political Rights:** A panel of independent experts rates countries on: the prevalence of free and fair elections of officials with real power; the ability of citizens to form political parties that may compete fairly in elections; freedom from domination by the military, foreign powers, totalitarian parties, religious hierarchies and economic oligarchies; and the political rights of minority groups. Source: Freedom House.
3. **Voice and Accountability:** An index of surveys rating countries on: institutions' ability to protect civil liberties, extent of citizen participation in government selection, and media independence. Source: World Bank Institute.
4. **Government Effectiveness:** An index of surveys rating countries on: quality of public service provision, civil service competency and independence from political pressures, and the government's ability to plan and implement sound policies. Source: World Bank Institute.
5. **Rule of Law:** An index of surveys rating countries on: the extent to which the public has confidence in and abides by rules of society; incidence of violent and non-violent crime; effectiveness and predictability of the judiciary; and the enforceability of contracts. Source: World Bank Institute.
6. **Control of Corruption:** An index of surveys rating countries on: the frequency of “additional payments to get things done,” the effects of corruption on the business environment, “grand corruption” in the political arena and the tendency of elites to engage in “state capture.” Source: World Bank Institute.

Economic Freedom:

1. **Cost of Starting a Business:** The Private Sector Advisory Service of the World Bank Group works with local lawyers and other professionals to examine specific regulations that impact business investment. One of their studies measures the cost of starting a new business as a percentage of per capita income. Source: World Bank Group.
2. **Inflation:** The most recent 12 month change in consumer prices as reported in the IMF's International Financial Statistics or in another public forum by the relevant national monetary authorities. Source: Multiple.
3. **Fiscal Policy:** Overall budget deficit divided by GDP, averaged over a 3 yr. period. The data is provided directly by the recipient government but is cross checked with other sources and made publicly available. Source: National Governments and IMF WEO.
4. **Days to Start a Business:** The Private Sector Advisory Service of the World Bank Group works with local lawyers and other professionals to measure how many days it takes to open a new business. Source: World Bank.

5. **Trade Policy:** A measure of a country's openness to international trade based on average tariff rates and non-tariff barriers to trade. Source: The Heritage Foundation's Index of Economic Freedom.
6. **Regulatory Quality Rating:** An index of surveys that rates countries on: the burden of regulations on business, price controls, the government's role in the economy, foreign investment regulation and many other areas. Source: World Bank Institute.

Investing in People:

1. **Public Expenditure on Health:** Total expenditures by government at all levels on health divided by GDP. Source: National Governments.
2. **Immunization:** The average of DPT3 and measles immunization rates for the most recent year available. Source: The World Health Organization WHO.
3. **Public Expenditure on Primary Education:** Total expenditures by government at all levels on primary education divided by GDP. Source: National Governments.
4. **Girls' Primary Completion Rate:** The number of female students completing primary education divided by the population in the relevant age cohort. Source: World Bank and UNESCO.